



## **Tertiary Education Report: Approach to funding WDC Interim Establishment Boards and Workforce Development Councils**

|   |  |                     |           |
|---|--|---------------------|-----------|
| <b>To:</b>                                    | Hon Chris Hipkins, Minister of Education |                     |           |
| <b>Date:</b>                                  | 28 May 2020                              | <b>Priority:</b>    | High      |
| <b>Security Level:</b>                        | Budget sensitive                         | <b>METIS No:</b>    | 1218242   |
| <b>Key Contact:</b>                           | Shelley Robertson                        | <b>DDI:</b>         | § 9(2)(a) |
| <b>Drafter</b>                                | Martine Udahemuka                        | <b>DDI:</b>         | § 9(2)(a) |
| <b>Messaging seen by Communications team:</b> | No                                       | <b>Round Robin:</b> | No        |

### **Purpose**

This report seeks your agreement to delegate to the Tertiary Education Commission the authority to administer funding to the WDC Interim Establishment Boards and Workforce Development Councils (WDC) under section 159F of the Education Act 1989.

Subject to your decisions, we will seek your approval of the associated Letter of Delegation.

Appointments to the WDC Interim Establishment Boards are expected to be made by mid-June, therefore decisions on the mechanism to fund them are needed at this time.

## Recommended Actions

The Ministry of Education and the Tertiary Education Commission (TEC) recommend that you:

- a. **agree** to delegate authority to the TEC to fund WDC Interim Establishment Boards and Workforce Development Councils under section 159F of the Education Act 1989

**AGREE / DISAGREE**

- b. **agree** to the following funding approach:

|                                     | Funding approach   | Funding amount                                       |                         |
|-------------------------------------|--|--|-------------------------|
| <i>Interim Establishment Boards</i> | TEC delegation to pay the Interim Boards on the basis of work completed as per their Terms of Reference  | Up to \$1.7m in 2019/20                              | <b>AGREE / DISAGREE</b> |
| <i>WDC - Phase 1</i>                | Establishment Plan agreed with TEC, focused on initial set up activities and on a subset of core functions, including activities to support COVID-19 recovery              | Up to \$46.0m in 2020/21<br>Up to \$54.0m in 2021/22 | <b>AGREE / DISAGREE</b> |
| <i>WDC - Phase 2</i>                | Organisational Development Plan to secure funding for activities up to December 2022, agreed with TEC. TEC will take into account WDC scale and other key drivers of cost. | Up to \$32.5m of \$65m in 2022/23                    | <b>AGREE / DISAGREE</b> |

- c. **note** that the WDC Interim Establishment Boards are likely to undertake the bulk of their activities in 2020/21. The Ministry has requested an In Principle Expense Transfer to move underspent 2019/20 funds to 2020/21

**NOTED**

- d. **agree** to delegate authority to the TEC to administer funding for WDCs under section 159F of the Education Act 1989, until December 2022, and impose any conditions it deems necessary, including the requirement for WDCs:
- to demonstrate how they will support industry during COVID-19 recovery
  - to demonstrate industry support for their organisational plans
  - to collaborate with each other and demonstrate how they are maximising efficiency and effectiveness for the use of Government funding
  - to participate in benchmarking exercises as requested by the TEC
  - to report on progress towards achieving RoVE objectives as required

**AGREE / DISAGREE**

e. **agree** to direct TEC, in the course of funding WDCs during their development period, to:

- a. report back to you on the progress of negotiations, noting any issues arising from the process
- b. report back to you on the progress of WDCs towards achieving RoVE objectives, quarterly until December 2022

**AGREE** **DISAGREE**

f. **note** that subject to your decisions on this paper, officials will immediately seek your approval of the Letter of Delegation to the TEC to administer the funding from mid-June.

**NOTED**

g. **note** that officials will explore at a later time, the suitability of a funding model based on quality outputs by function under section 159L of the Act and the extent to which industry contributions could be used, beyond December 2022

**NOTED**

h. **agree** to proactively release this paper in accordance with the provisions of the Official Information Act (1982)

**AGREE** **DISAGREE**



**Andy Jackson**

Deputy Secretary, Graduate Achievement,  
Vocations and Careers  
Ministry of Education

28 / 05 / 2020



**Gillian Dudgeon**

Deputy Chief Executive  
Tertiary Education Commission

28 / 05 / 2020



**Hon Chris Hipkins**

Minister of Education

30/5 /2020

## Background

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1. You recently agreed to accelerate the establishment of WDCs to support the tertiary sector and the wider economy to recover from the impacts of COVID-19. You agreed that this should happen through the formation of six WDC Interim Establishment Boards and you delegated the appointment of the Board chair and Board members to the Chief Executive of TEC (METIS 1226204 refers).
2. In July 2019, Cabinet agreed to draw down \$1.7 million from the Reform of Vocational Education contingency for the initial establishment of WDCs in 2019/20 (CAB-19-MIN-0344 refers). This funding is appropriated to the Tertiary Sector / Industry Collaboration Projects fund within Vote Tertiary Education which is limited to funding activities that improve the relevance to industry of tertiary education provision. The work of the WDC Interim Boards fits within this scope.
3. Cabinet has also recently committed up to \$230 million over four years for the initial set up and ongoing operations of WDCs as part of the Trades and Apprenticeships Training Package [CAB-20-MIN-0219.27 refers]. You have previously indicated that the funding approach for WDCs considers a brief period of initial set-up followed by two years of initial funding before an ongoing approach is introduced (B/19/01396 refers). This paper focuses on the approach for the initial development period of WDCs to December 2022. We will explore a longer-term funding model based on quality outputs and the possibility for industry contributions to be applied after this initial period.

## Appointments to the WDC Interim Boards are expected to be finalised by mid-June

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4. The work to fast-track WDC establishment is under way with an Expression of Interest (EoI) for appointments to the skills-based interim Boards running until 2 June 2020 with the expectation to make appointments by mid-June 2020. TEC has continued to work closely with key industry groups, who are already involved in establishing some WDCs, as part of the EoI process.
5. The Interim Boards will be primarily responsible for setting up their respective WDCs by 1 October 2020, including consulting on the contents of the Orders in Council and draft Establishment Plan to secure initial funding for the WDCs. The Interim Boards will be in place until their respective WDCs are established, and handover to the appointed Establishment Boards is complete.
6. The Interim Boards will be hosted by TEC, and will receive secretariat and other resource support from the RoVE Programme. A RoVE official will be assigned to work alongside the Interim Boards.

## The approach to funding WCDs should support their development needs

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7. Government will need to support WDCs to quickly build their capability, set the foundations for their operations and plan for their ongoing operations, while prioritising work for COVID-19 recovery. We expect an initial development period building towards fully-operational entities to include a gradual undertaking of statutory functions as they transfer from Transitional Industry Training Organisations, and the piloting of new functions. We expect this period to last until December 2022.

The use of the word "gradual" in this context is concerning.  
We need the WDCs fully functioning as soon as possible.  
CH, 30/5/2020

***We recommend a negotiated approach between TEC and WDCs to agree key deliverables and activities in the initial development period***

8. Funding for Industry Training Organisations was primarily linked to the volume of training and we do not consider this appropriate for WDCs. WDCs will not have any direct influence over the number of trainees in the system and funding them on the volume of their activities could drive them away from focusing on quality outputs.
9. We recommend that for the period to the end of 2022:
  - a. The proposed WDC Interim Establishment Boards will be funded by the RoVE programme, with secretariat and analytical support provided by the RoVE programme, using the \$1.7 million appropriated to fund the initial establishment costs of WDCs.
  - b. TEC will fund the new WDCs initially on the basis of an Establishment Plan developed by the Interim Board, but confirmed and implemented by the WDC Establishment Board upon approval of its Order in Council.
  - c. Further funding will be on the basis of negotiations with the TEC on an Organisational Development Plan outlining activities to December 2022, proposed by each WDC Establishment Board. It may be necessary to have a further Establishment Plan before a longer term Organisational Development Plan can be approved.
  - d. The \$46 million in 2020/21, \$54 million in 2021/22, and \$32.5 million of \$65.0 million in 2022/23 provided in Budget 2020 for funding WDCs will be negotiated during these development phases. Up to \$4.0 of the \$46 million in 2021/22 has been appropriated for the initial establishment activities of WDCs such as the appointment of a governance board, senior management, and change management specialists.
  - e. TEC and each WDC will agree the performance measures of both types of plans and any applicable milestones for the WDCs towards performing all their intended functions by the end of 2022.
10. TEC will have to apportion amounts between WDCs within the available funding, so a standard and structured approach to costing activities is important. Officials have estimated that as a result of their relatively small scale, WDCs will face high fixed costs of around 35 percent of their total cost. This suggests that considering these base costs for the final allocation has the advantage of reducing risk for the operations of WDCs. The TEC will apply common costing methodologies in its decisions to fund the organisation plans, and ensure funding takes into account the anticipated level of fixed costs.
11. Costs for the initial start-up phase such as appointing senior management, setting up key systems, hiring key administrative staff, and securing leases are relatively stable and verifiable. However, WDCs are necessarily different in size due to the scope and scale of the industries within their coverage, meaning that their cost drivers for delivering on their functions will vary. TEC will also take into account, via its approval of the plans, the scale and other factors (e.g. number of qualifications, standards, and programmes within coverage, extent and type of industry engagement required, etc.) that may drive costs for the industries covered by each WDC.



12. We believe the negotiated approach is sufficiently flexible to allow WDCs to stabilise operations and integrate into the vocational education and training system, without unnecessarily high transaction costs to them or to Government.

***We recommend that you delegate to the TEC to administer funding to WDCs under section 159F(1)(e) of the Education Act 1989***

13. We expect that WDC funding until the end of 2022 will need to adapt to the WDCs development, and a letter of delegation under section 159F(1)(e) will allow you to be directive about your expectations of WDCs and the TEC. It is also the most pragmatic mechanism during this development period as it provides the TEC with the flexibility to administer the funds in a way that best enables WDCs to achieve their outcomes as intended by the RoVE.
14. We recommend this delegation covers both the funding of the Interim Establishment Boards, and the TEC-negotiated funding of the Establishment plans and further Organisational Development Plans until the end of 2022. You could use a funding mechanism issued under section 159L of the Education Act, however we do not consider a funding approach based on purchasing outputs by function appropriate during the initial stages of development as the services and business of WDCs will evolve throughout their development period.
15. Table 1 summarises our recommended approach for Interim Boards and WDCs.

*Table 1: Funding requirements for Interim Boards and WDCs to December 2022*

|                              | IEBs  | WDC – phase 1   | WDC – phase 2  |
|------------------------------|---|---|--|
| <b>Description</b>           | 6 IEBs selected through an Eol process, and appointed by the TEC CE   | 6 WDCs established through an Order in Council and begin their initial set up activities to establish core services and support, and gradually begin to undertake statutory functions   | WDCs focused on statutory functions and working towards becoming fully operational   |
| <b>Timeline</b>              | Interim appointments expected to be made by June 2020 until the handover to the WDC Board is complete   | Expected from 1 October 2020  | Up to December 2022, then a longer-term/ongoing funding approach, possibly under s159L of the Education Act could be introduced  |
| <b>Core activity</b>         | Primarily responsible for setting up their respective WDC, including: <ul style="list-style-type: none"> <li>Consulting on the contents of the Order in Council</li> <li>Drafting an Establishment Plan to secure initial funding for WDCs</li> </ul> | Setting up core services and support, and establishing senior management and change management structures, and begin to undertake a subset of their statutory functions – especially those relevant to COVID-19 recovery.<br><br>The WDC Board will review and approve the Establishment Plan and agree with the TEC key activities for this period, and develop a longer term plan for Phase 2 | WDCs perform their statutory functions, leading to a fully operational state.<br><br>The WDC Board need a longer-term Organisational Development Plan to secure ongoing funding to Dec 2022 from TEC |
| <b>Mechanism for funding</b> | TEC delegation to pay the Interim Boards upon invoices/receipts of work completed as per activities in the ToR  | TEC delegation to pay the WDC upon agreement of the Establishment Plan  | TEC delegation to administer further funding to the WDC upon agreement of the Organisational Development Plan  |
| <b>Available funding</b>     | Up to \$1.7m in total in 2019/20  | Up to \$46m in total for initial establishment and working capital in 2020/21, including \$4.0m for one-off set up costs such as appointing governance boards, and change management specialists.<br><br>Up to \$54m in total 2021/22<br><br>Up to \$32.5m in total to Dec 2022 (half-year effect of \$65m) in 2022/23  |  |

### ***Funding framework for ongoing WDC operations after 2022***

16. Overtime, WDCs will face cost pressures. Contributions from industry and employers could be considered as part of the longer term and ongoing approach to funding WDCs. We propose that WDCs participate in benchmarking activities for their initial years of operation in order to gather more information about their services and operations.
17. Once WDCs are at full-scale operations and more information about their operations and business is available, we will recommend a long-term funding and accountability approach that supports WDCs to perform their functions at a high standard. We anticipate that the delegated funding authority recommended in this paper would be replaced by a funding determination under section 159(L) of the Education Act 1989 from 2023, to be a fully-transitioned part of the reformed system.

### ***Funding will need to complement other levers of performance for WDCs***

18. Government as the main funder of WDCs, will need to use a mix of levers to ensure WDCs produce what is required of them, including ensuring their responsiveness to industry. Funding will not be the only lever government uses to incentivise performance in WDCs. Accountability and performance would also be driven through the indicators sitting behind the performance commitments agreed with TEC, the associated accountability of WDC governing councils, and the external monitoring and quality assurance provisions in the Education Act 1989.

## **How TEC will administer the funding**

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### ***Funding WDC Interim Establishment Boards***

19. We recommend that you delegate to the TEC, the authority to distribute funding to enable the six WDC Interim Establishment Boards to deliver on their activities stipulated in their Terms of Reference (ToR).
20. We recommend that funding from the Tertiary Sector/Industry Collaboration Projects appropriation be only used to fund Interim Establishment Board activities directly related to establishing individual WDCs, and not generic WDC establishment support meant to be provided by the RoVE programme.
21. Each Interim Establishment Board will be funded for up to a period of nine months, but no later than the point at which handover to their respective WDC Establishment Board is complete. While officials anticipate that all WDCs will be established by October 2020, a longer funding period for the Interim Boards accommodates industries that may require additional time to appoint their Boards.

### ***Funding Workforce Development Councils to end of 2022***

22. We recommend that you delegate to the TEC, the authority to fund WDCs to perform their statutory functions and fulfil their duties as outlined in the Education Act 1989 and in their respective Order in Council.
23. As newly established organisations, WDCs will not be in a position to develop long-term plans setting out their strategic direction to secure ongoing funding from the onset. Therefore, we expect that each WDC will secure funding in tranches. The first based on the initial establishment plan, and then a longer-term plan to secure funding for their ongoing operations to December 2022. The RoVE Programme will provide

guidance to all WDC Interim Establishment Boards and to WDCs about the requirements for their plans.

24. We recommend that WDCs demonstrate, in all their plans, broad industry support and plans for collaboration. Where possible, WDCs should collaborate with other WDCs on joint projects, procurement, and shared services to support service improvements and efficiencies. Expectations to collaborate around sharing of services will be expressed through funding conditions. TEC should also consider how the governance and management systems support the WDC to successfully deliver its statutory functions.
25. Setting up these organisations will be high-risk as they will need to quickly start to demonstrate value to gain trust with their industries. High level industry and stakeholder support; a pragmatic and flexible approach to plan negotiations; and the monitoring and quality assurance provisions in the Education Act 1989 will mitigate this risk.
26. The TEC will report back to you on progress and about any issues rising during the initial stages of negotiations with WDCs. Furthermore, we propose that the TEC reports back to you on the progress of WDCs once established, quarterly until December 2022.
27. TEC will develop a suitable framework for making funding decisions in accordance with the delegation, including appropriate criteria for determining how funding will be allocated.